Statement of Carol B. Hallett, President & Chief Executive Officer
Air Transport Association of America
Before the United States Senate Science, Transportation and Commerce Committee Hearing on Airline Labor Relations
April 25, 2001

Mr. Chairman, members of the Committee, I am Carol Hallett, president and chief executive officer of the Air Transport Association of America, Inc. On behalf of our member airlines[*], and, indeed, I would venture to say on behalf of all aviation consumers, thank you for holding today's important hearing looking into the labor problems confronting the airline industry.

At the outset, I should note that, as a matter of general policy, ATA has traditionally not commented on labor relations in the industry. This is an area which we believe is best left to the unique circumstances of each airline and its labor organizations. These are matters of great sensitivity to our members, each of whom seeks strong, positive relationships with their various labor groups. The airlines well recognize that their employees are the backbone of the industry – as well as its public face to the consumer – and they know that the quality of these relationships are central to the success of their companies.

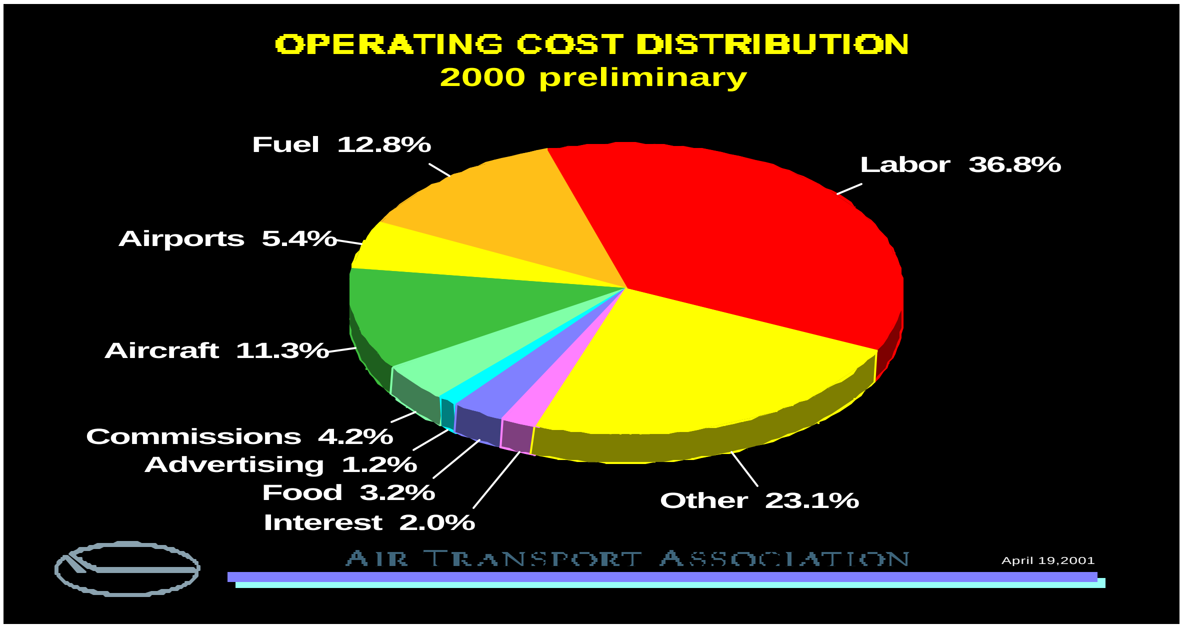
It has become evident in the past few years, however, that too often the labor and management negotiating process, under which the airlines operate, is under stress. We have seen far too many examples of process breakdown and of aviation consumers being made the victim of this negotiating process:

- In multiple instances, carriers have been compelled to bring legal actions against labor organizations to halt what courts have found to be intentional and illegal disruptions of service;
- Millions of passengers have experienced massive delays and cancellations of flights due to work slow downs, sick-outs and other workforce actions; and
- Air cargo operations, critical to our "just in time delivery" based economy, have been threatened as well.

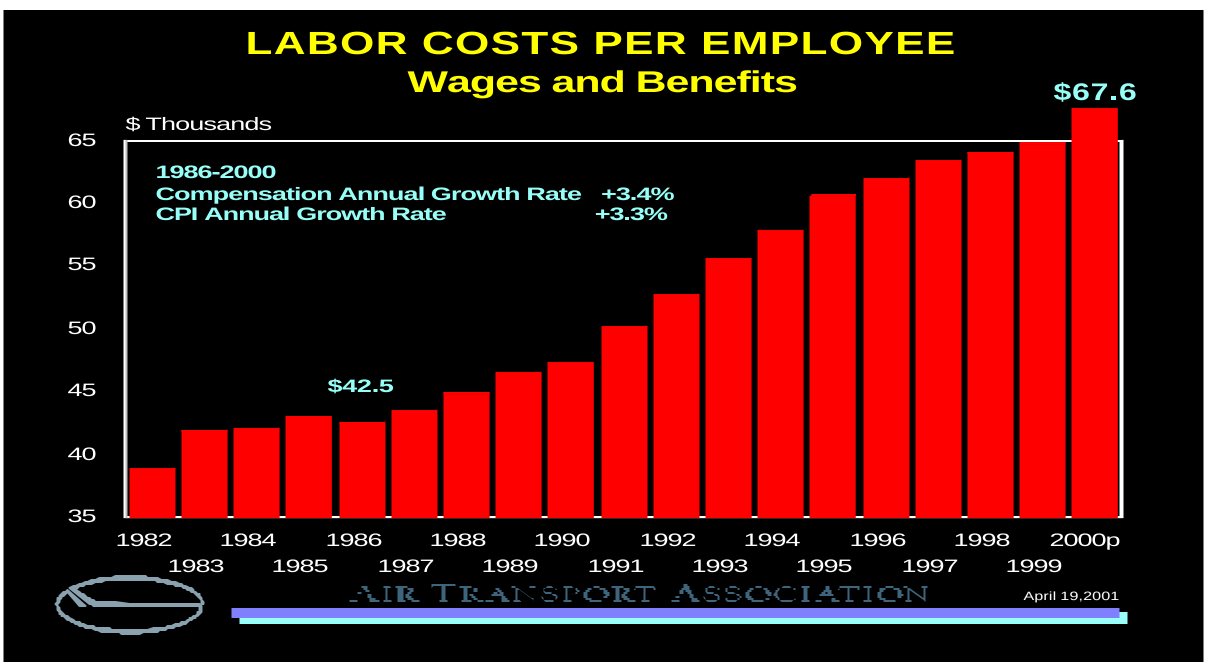
Because of the seriousness of these problems, and because our member airlines are desperately seeking appropriate, fair solutions, I have been asked by the Committee to deviate from our general policy of not commenting on labor relations issues, in order to provide you with a quick overview of the economic and practical issues with which we are dealing.

[*] Airborne Express, Alaska Airlines, Inc., Aloha Airlines, Inc., America West Airlines, Inc., American Airlines, Inc., American Trans Air, Atlas Air, Inc., Continental Airlines, Inc., Delta Air Lines, Inc., DHL Airways, Inc., Emery Worldwide, Evergreen International Airlines, Inc., FedEx Corporation, Hawaiian Airlines, Inc., Midwest Express Airlines, Inc., Northwest Airlines, Inc., Polar Air Cargo, Southwest Airlines Co., Trans World Airlines, Inc., United Airlines, United Parcel Service Airlines, US Airways, Inc.

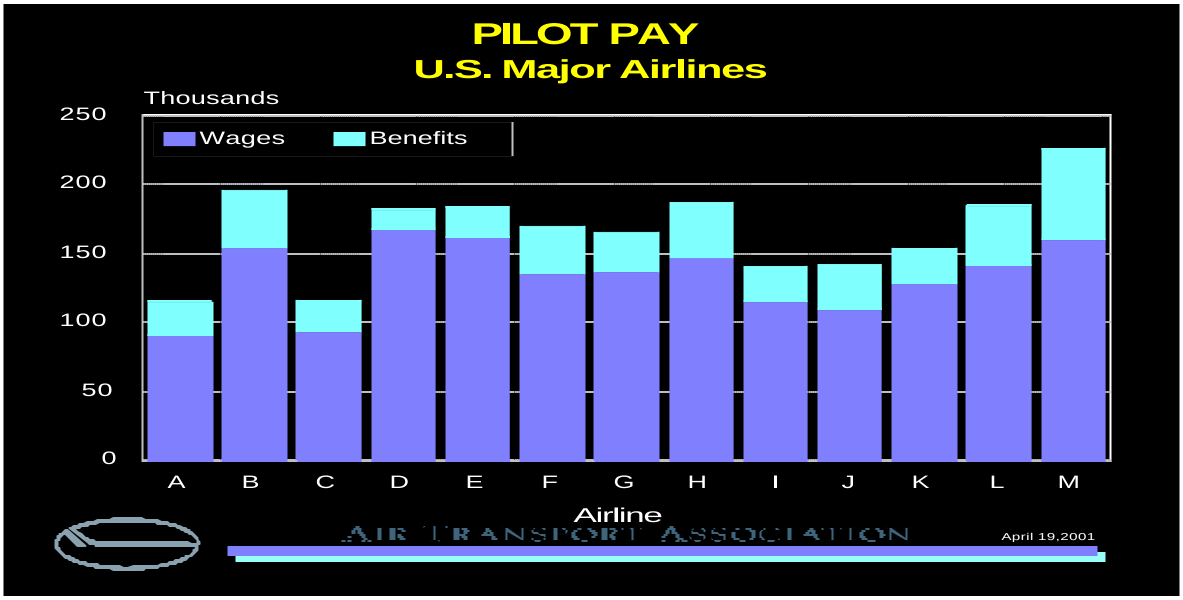
Labor costs in the airline industry, by far, comprise the single largest area of expense. These expenses account for over thirty-six percent of total airline operating costs. This figure is roughly three times the size of the next largest, discrete expense, which is fuel.



The jobs that these labor costs represent are among the most highly compensated in the nation. The <u>average</u> airline employee's wages and benefits topped $67,000 last year.



Over the last twenty years, those wages and benefits, with rare exception, have continued to trend consistently upward at a rate in excess of the rate of inflation. Average pilot wages and benefits for our members are estimated for 2000 to exceed $169,000.



The aggregate numbers suggest that, in the long run, airline employees have not suffered from temporary wage losses, give backs, or other concessions that may have occurred during difficult economic times.

Why are airline wages so high? At risk of oversimplification there are two basic reasons. First, the industry has a highly professional, skilled, and unionized workforce in which some sixty to seventy percent of employees of major airlines are represented by a labor organization. This compares to a national average for all industries of roughly eight percent.

The second reason has to do with the fundamental structure of the industry. Airlines are retail service businesses that are highly cash-flow dependent, with no ability to stockpile inventory. That is a complicated way of saying that they simply cannot afford to take an extended strike – and both labor and management know that and act accordingly.

Let me give a rough calculation to demonstrate this point. Together, major and national carriers currently have access to slightly over $10 billion in cash and cash equivalents. They experience daily, largely fixed, expenses on the order of $280 million. While the wage portion of those expenses would be reduced somewhat in the event of a strike, the fact remains that a one-month's strike would effectively put the industry into a negative cash position. Obviously, at the individual carrier level, the effect of a strike will vary but the devastating economic reality remains.

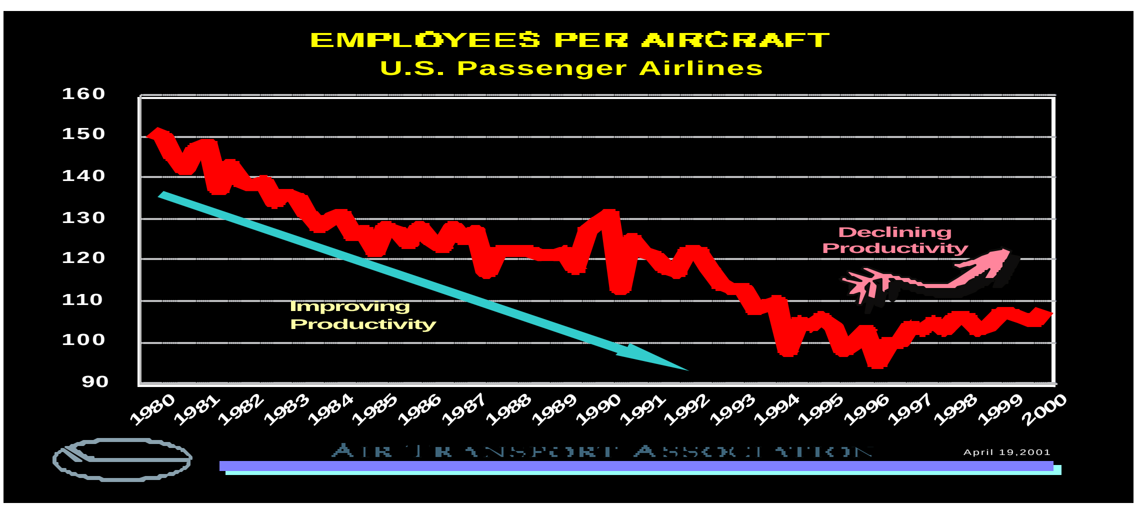
One important point, which is sometimes overlooked, is the long-term impact of a strike on a given carrier. The threat of a strike, and its actualization, typically result in a long-term loss of business by the carrier involved. Business customers, in particular, once moved to alternative carriers, can be very slow to return. In one recent situation, a fourteen-day strike was reflected in a continuing loss of business by that carrier almost one year later.

Further complicating this dynamic, as I mentioned at the outset, is the disturbing trend toward illegal work slow downs aimed at pressuring management, which have the effect of making consumers victims in the process. These actions are, in many respects, more vexing than a strike itself because they create a level of service disruption intentionally designed to cause consumers to book reservations away from the affected carrier, without a direct or immediate means of resolution. They are a form of anti-consumer, guerrilla warfare against management, intended to win concessions outside of the proper bargaining process. Worse still, because proving that these illegal activities are occurring requires substantial documentation, it is a virtual certainty that major service disruptions and substantial economic losses will be experienced before any action can be taken to begin to deal with the situation.

Because of the disproportionate impact such activities can have on particular geographic areas, and the inability of other carriers to "back fill" service – due to the high level of demand they are all experiencing – we are confronted by a tremendously complex and potentially catastrophic set of circumstances.

To be candid, because labor issues are not in the normal course of things, the business of ATA, I have no concrete recommendations to present to the Committee today. Clearly, today's hearing is a major step in the right direction and, as circumstances warrant, I would be pleased to engage in further discussions with our Board. I will conclude by stating what I think is obvious but, too often, lost sight of –

The ATA member airlines exist because of the hard work of their employees. Those employees are the airlines' single greatest asset, and they deserve to be fairly and fully compensated for the work they do. Determining the appropriate level of pay and benefits requires a balancing, as well, of industry economics – what consumers are willing to pay, investors are willing to invest, and employees produce.



This is not an easy process, but it is one that can and does work when approached in good faith at the bargaining table. The ATA member airlines are committed to making that process work.